Department of the Navy Public-Private Ventures (PPV)

Lessons Learned & Portfolio Management

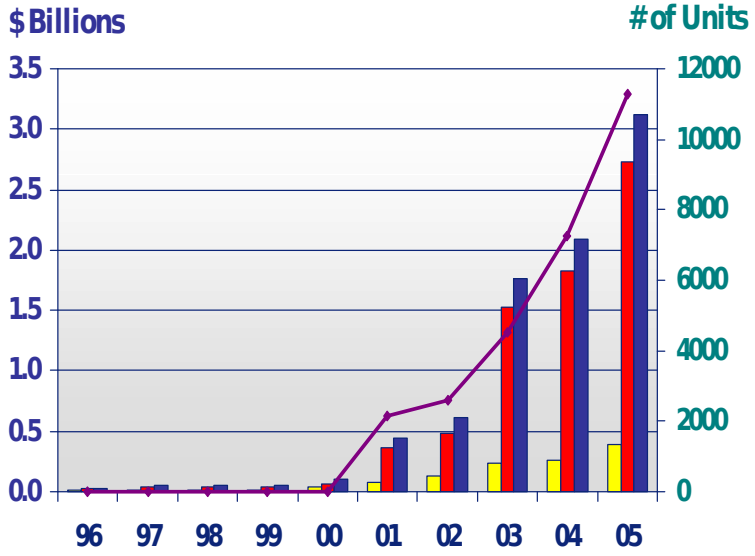
January 2004

Executed Projects

- 16,052 homes since 1996
  - Kingsville, TX (I & II)
  - Everett, WA (I & II)
  - Camp Pendleton, CA
  - San Diego, CA
  - New Orleans, LA
  - Corpus Christi/Ingleside, TX
  - Beaufort/Parris Island, SC
  - San Diego PH II, CA
  - Camp Pendleton, CA (II)/Quantico, VA

- $1.63 billion Total Development Cost
- $229 million DoN contribution

Data as of 01 Oct 2003



LEVERAGE ACHIEVED:

$1.4 Billion

Planned Projects

FY04

- Yuma*
- Stewart, NY
- Hawaii Region I

FY05

- NE Region (east)
- NW Region I
- Mid-Atlantic
- NE Region (west)
- Camp Lejeune I
- Kansas City*
- Twentynine Palms*

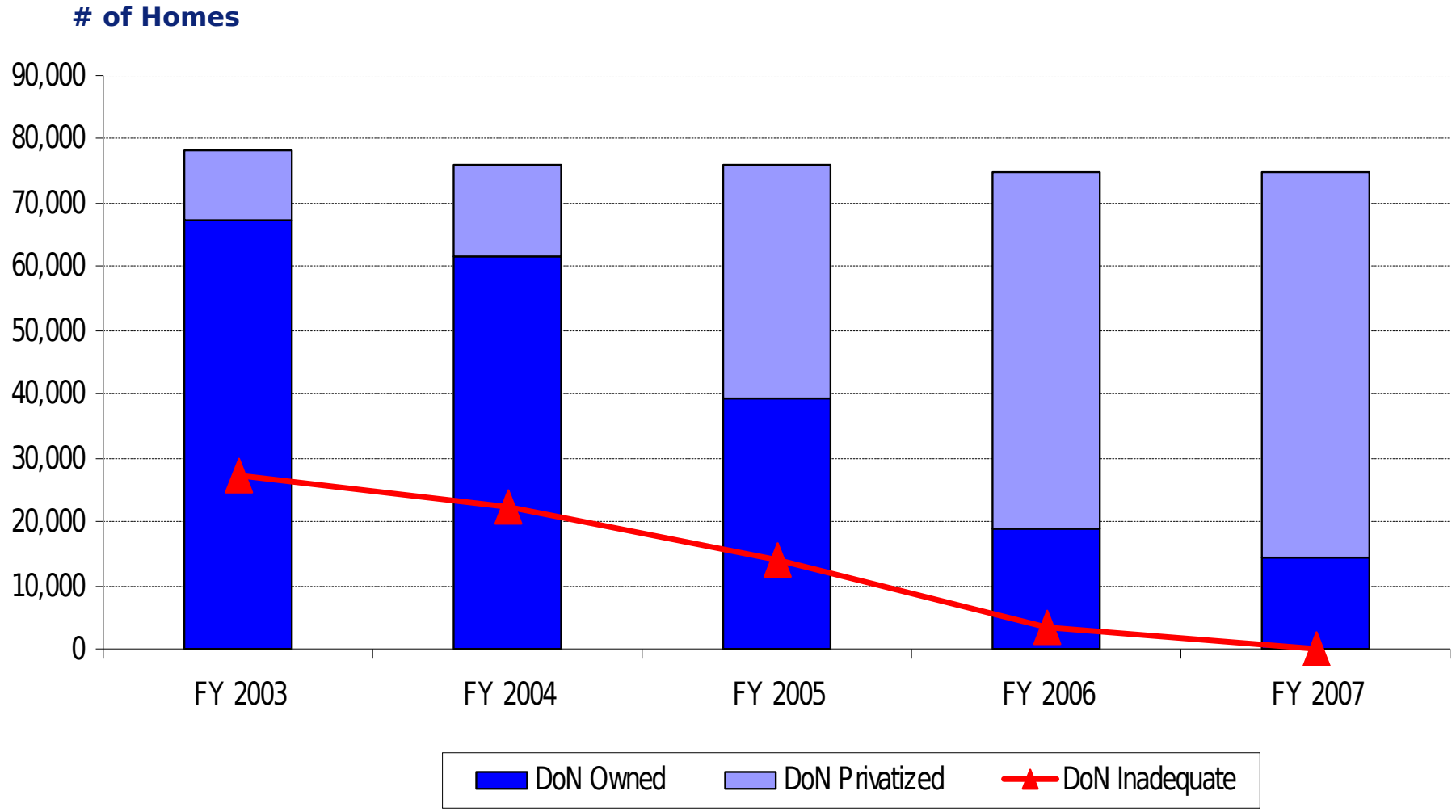
FY06

- SE Region (west)
- SE Region (east)
- NW Region II*
- Camp Lejeune II*
- Camp Pendleton III*
- San Diego III*
- Hawaii Region (Navy and USMC)*

* Option to previous agreements

NAVY Project USMC Project JOINT (Navy & USMC) Project

DoN Family Housing Inventory



Lessons Learned

- ***Planning***
- ***Communication***
- ***Approach***
- ***Acquisition Process***
- ***Team Makeup***
- ***Execution***

Planning

- ***Realistic requirements***
  - ***Market analysis***
  - ***Expected paygrade distribution for demand***
- ***Scope definition***
- ***Start supporting studies early***

Communication

- ***Internal coordination***
  - ***All on same sheet***
  - ***Assignment of roles and responsibilities***
- ***External outreach***
  - ***Residents***
  - ***Local governments***
  - ***Unions***
- ***Plan, communicate, and start early***

Approach

- ***Regional projects***
  - ***Portfolio approach to inventory***
  - ***Adds complexity***
- ***Be flexible***

Acquisition Process

- ***Use of template documents***
  - ***Securing approvals***
  - ***Industry expectations***
  - ***Commonality***
- ***Face-to-face***
  - ***Presentations***
  - ***Debriefs***
- ***Let proposer develop O&M plan, not Navy***

Teaming

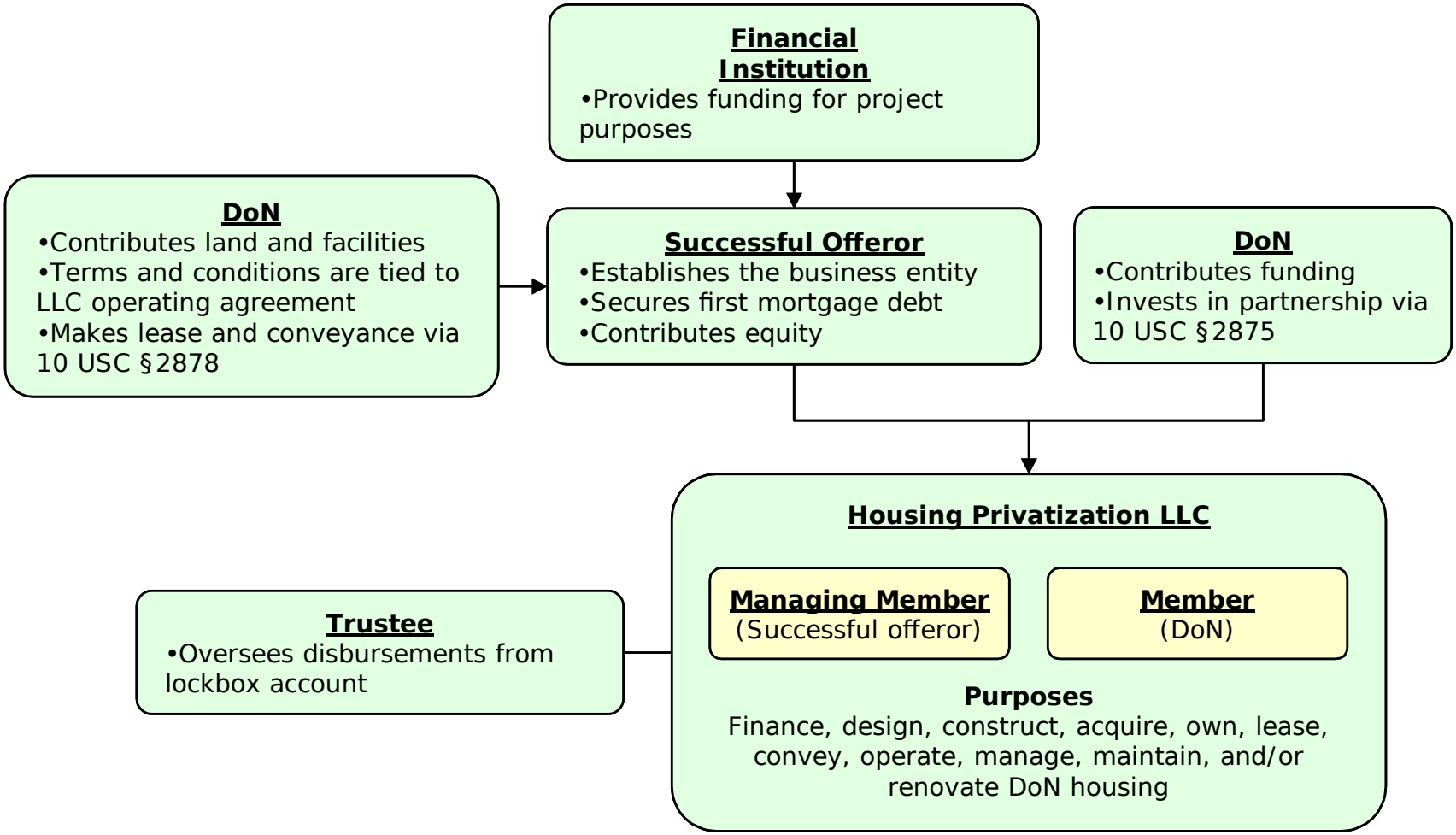
- ***Full Representation***
  - ***All stakeholders represented***
  - ***Stability…reduce turmoil and reinvention of the wheel***
- ***Partnering***
  - ***Agree on mutual goals***
  - ***Convey working details to those who will implement***

Execution

- *Timing*
- *Transition from military housing to privatized housing*
  - *Residents*
  - *Existing contracts*
- *Allow for uncertainty…*
- *Special requirements*
- *The CO is not the landlord*

DoN Portfolio Management

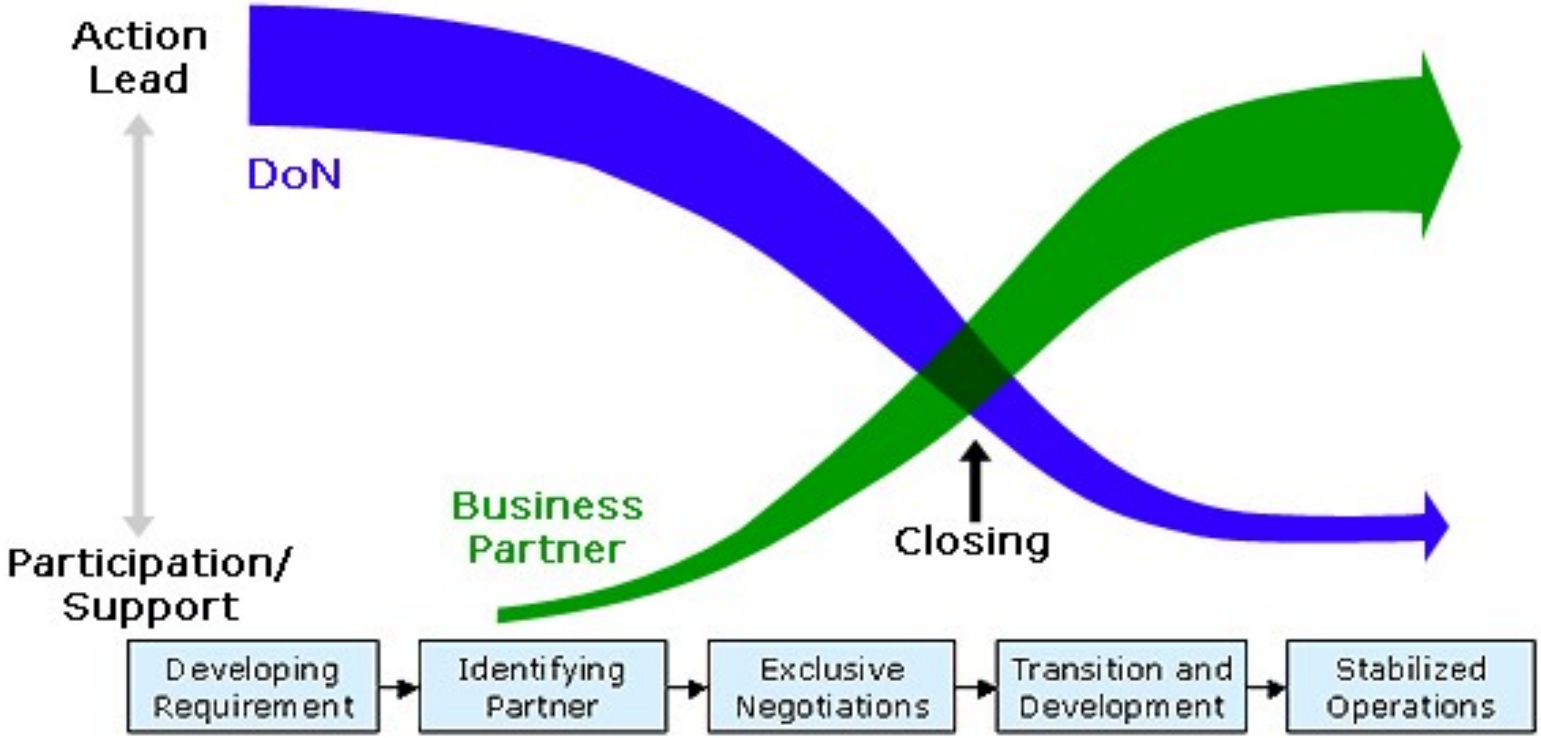
The LLC Business Structure



The Managing Member and the LLC

- **Core responsibility is to accomplish the purposes of the LLC**
  - –Build and renovate private-sector housing, and make it available to military families.
- **Primary operational role encompasses most functions formerly performed by DoN's local and regional housing organization**
  - –Property management, operation and maintenance of the housing, and asset management.
- **Maintains full and proper accounts of all transactions of the LLC**
  - –Prepares annual operating and capital budgets
  - –Prepares periodic financial and performance reports
  - –Prepares audited annual financial statement

Transition of Responsibility



Upon execution of the business agreements, the Managing Member assumes full responsibility for developing, operating, and managing the occupancy of family housing.

Transition Starts During Negotiations

- **During exclusive negotiations, the prospective business partner collaborates with the DoN on transition to private ownership and operations**
  - –Develop and implement a resident communication strategy
  - –Develop DoN preferred referral protocols
  - –Obtain signed leases from the current residents
  - –Prepare management and operation staff and open temporary offices for property management and construction
- **The partner sets up mechanisms for reporting and monitoring the status and financial health of the enterprise**
  - –Occupancy rates, turnover times, and condition of homes
  - –Scheduled construction and rehabilitation
  - –Rental income, annual operating budget, and capital expenditures

Development Period: Managing Member

- **New Construction and Renovation**
  - Executes the design-build contract and builds, renovates, or demolishes housing according to the schedule and budget negotiated in the business agreements.
  - Shoulders the burden of resolving any of the diverse problems that commonly crop up during such an undertaking—weather delays, shortages of materials, labor disputes, regulatory entanglements

- **Consulting Architect**
  - The consulting architect monitors construction compliance, exercises quality control, and approves draws on construction funds

Development Period: DoN Role

- **The DoN completes its transfer of responsibility for building, operating, and managing family housing**

- **The DoN's role is now that of Member of the new business entity**
  - –Monitors the schedule and status of construction via the consulting architect and the ROICC
  - –Develops protocols for preferred referrals with property manager
  - –Monitors the acceptability of the housing and the overall viability of the project
  - –Works with the partner to resolve development and transition issues

Stabilized Operations: Managing Member

- The business partner is the Managing Member of the LLC
- The Managing Member is responsible for housing rentals and property management; preparing regular reports on the financial status of the enterprise; and establishing the annual budget.
- It carries a fiduciary responsibility for the security and disposition of all assets and for receipt and disbursement of LLC funds.
- In addition, its role includes setting up and staffing the necessary operational and administrative offices.

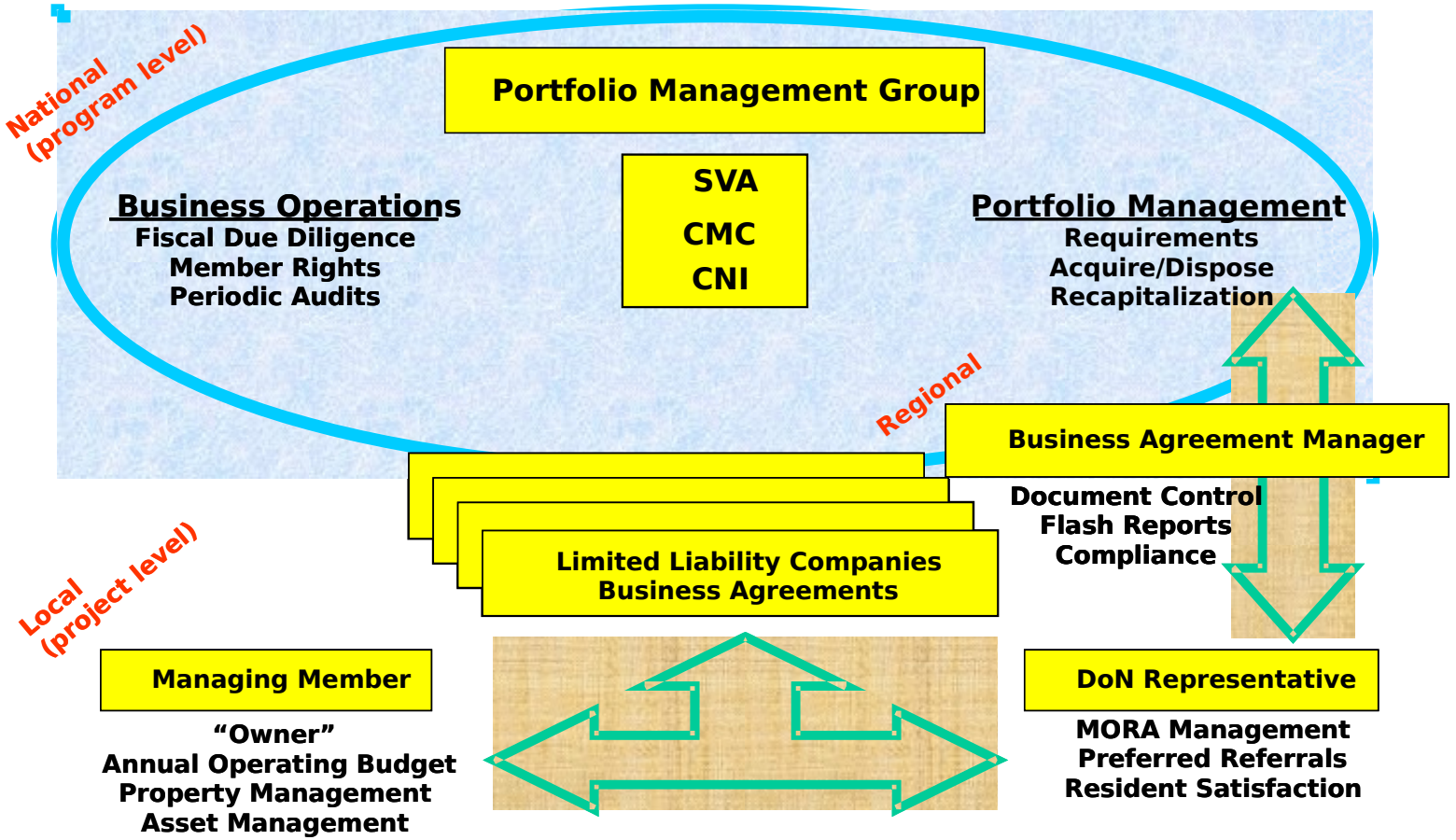
Stabilized Operations: DoN Role

- The DoN, participating as LLC Member, monitors the performance of its investment in the private housing portfolio. It makes and concurs with recommendations regarding the use of the Operating Reserve Account (ORA) and approves any ORA expenditures

- For assistance the DoN draws on a business agreements manager and a portfolio management group. (Depending on the DoN Representative, a Member Advisory Group may also provide support.) These advise the DoN on business and asset management

- In addition, the DoN monitors the performance of the property manager with respect to customer satisfaction

DoN Functions and Relationships



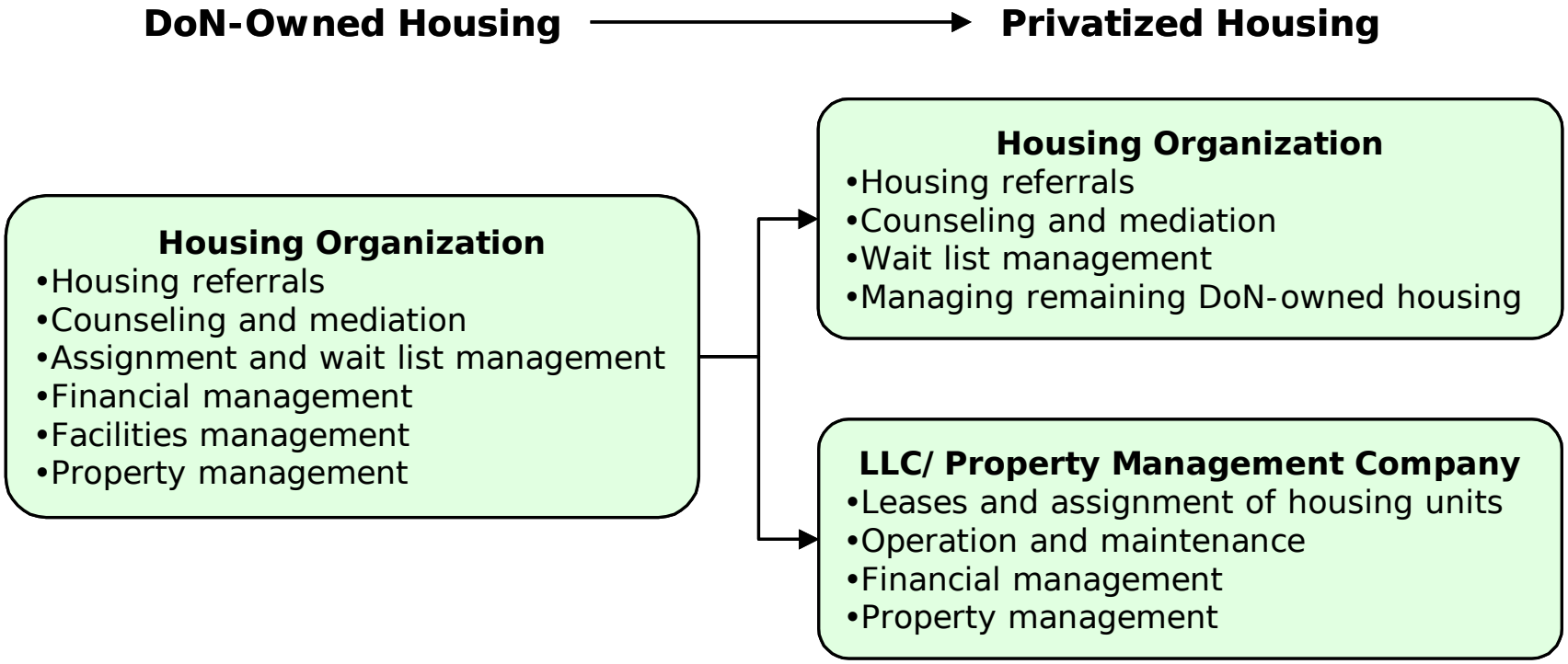
DoN Portfolio Management

- **Portfolio Management Group**
  - –Comprised of representatives from CNI, CMC, and NAVFAC SVA
  - –Ensures business entities are fiscally sound and performing as expected
  - –Meets quarterly to review status of DoN portfolio
- **DoN Representative**
  - –Represents DoN investment interests to LLC
  - –Manages preferred referrals and focuses on resident satisfaction
    - •Off the shelf CEL survey used also as a factor for incentive fees
  - –May represent DoN to several independent business entities
    - •Example: Southeast Region will have six separate deals
- **Business Agreement Manager**
  - –Maintains official business documents and monitors compliance
  - –Receives and reviews periodic business reports
  - –Advises DoN Representative on our limited role in LLC
  - –Provides input for DoN, DoD, and congressional reports (PEP, etc.)

Significant Reduction in Resources

- **Portfolio Management Group**
  - –Three Senior DoN representatives, part time
- **DoN Representative**
  - –Six regional housing directors for Navy, part time
  - –Four representatives for USMC, part time
- **Business Agreement Manager**
  - –Six personnel for DoN (USMC and Navy), full time
- **The Housing Organization**
  - –Approx 600 USMC & 1000 Navy Housing staff currently on board
  - –USMC estimates 50-75% reduction in staff
  - –Navy has hired Grant Thornton to assess staffing requirements

The Housing Organization Role



As a result of privatization, the functions of the housing organization have undergone a significant shift.